DEPARTMENT OF STATE

ACTION MEMORANDUM

S/S

CONFIDENTIAL

3 AUG 1981

EXCISE

TO: The Secretary

FROM: EB - Robert D. Hormats ROBERT D. HORMATS

SUBJECT: Butter Deal

Secretary Block may call you on the New Zealand butter deal or he may raise it with you at the Cabinet meeting on Tuesday. USDA believes that the last Cabinet decision on butter gave it the authority to negotiate the sale to New Zealand provided there is no resale to the Soviet Union.

Essential Factors

Given the dimensions of the surplus, we cannot hold to the position of doing nothing over the long term:

-- The CCC now holds about 430 million pounds of butter, most of it manufactured in the last two years. Frozen butter lasts two to three years.

-- The stockpile now grows by about 3.5 million pounds a week.

-- A stock this size costs the CCC about $80 million per year in storage and interest charges (mainly interest).

-- USDA currently has enough storage space under contract to accomodate 6-8 weeks of new butter purchases. Additional space is a available at increasingly higher commercial rates.

-- Butter stocks will continue to grow to over 800 million pounds by January, 1986.

New Zealand's current proposal is to purchase 200 million pounds of butter under our condition that it not sell US butter or butter products to the USSR directly or indirectly.

DEPARTMENT OF STATE A/GDC/MR
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